



Remarks For

The Hon. Steven C. Preston
Administrator
U.S. Small Business Administration

Delivered At The

**NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES
(NADCO)
2007 ANNUAL MEETING**

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Thank you, Norm, for that nice introduction.

Thanks also to NADCO President Chris Crawford for inviting me to join you today and what a lovely city to hold a conference in.

This is a great time to be here with you all because, as you may know it's small business week. SBA had a number of events in Washington earlier this week honoring various award winners, including our Small Business of the Year from North Carolina, who, by the way, have grown their business with the support of a 504 loan.

Bobbie Jacobs-Ghaffar and Lesa Jacobs, sisters and members of the Lumbee Indian Tribe, took their combined 40 years of health care experience and launched a homegrown healthcare business in 2000. At the start, they had only one cell phone, two patients and a certified nursing assistant. Today, Native Angels Homecare and Hospice provides a broad range of services, employing 301 professionals and serving 760 patients daily, with annual sales over \$9 million.

The company provides "a full spectrum of holistic healthcare" and aims to "empower individuals in our community to make informed health decisions that will have a positive impact on the quality of their lives and their family's lives." A new \$7.2 million headquarters building is being financed with an SBA 504 loan. The facility in Lumberton will include a

24-hour child care center, an urgent care center, a full service cafeteria, gift shop, pharmacy and a 110,000-square-foot regional youth sports complex.

And now we are finishing up the week spending time with people who devote themselves professionally to enabling those small business owners realize their dreams...our CDC partners. Thank you, thank you, thank you for all that you do to help the small businesses of this country be the tremendous engine supporting our economy.

Small Business and the Economy

In the President's proclamation of 2007 Small Business Week he stated:

Small businesses are the lifeblood of cities and towns across the country, and we salute small business owners, entrepreneurs, and employees for enhancing our communities and expanding opportunities for all. The hard work and ingenuity of our Nation's small business men and women are helping to sustain America's economic strength.

The state of our economy is strong. Small business is behind much of that strength. And opportunities to start and grow small businesses are better than they have ever been before.

Over the past year, America's economy has grown faster than that of any major industrialized economy in the world.

Since August 2003, almost 8 million jobs have been created, more than the other industrialized nations combined. Our economy has now added jobs for 43 straight months, and the unemployment rate remains low at 4.4 percent.

Our economy is also enjoying low inflation rates, low interest rates, and low mortgage rates. Families are taking home more of what they earn and after-tax incomes are up. More specifically, real after-tax income per person has risen by 10 percent, more than \$2,900 since President Bush took office.

More Americans are going to college than at any other time in our nation's history. And home ownership in America is at an all-time high.

So much of our economic prosperity is driven by an entrepreneurial culture and deep capital markets which provide a robust environment for businesses to start, grow, innovate, and ultimately drive job creation and economic growth.

Small businesses account for about 99 percent of all employers and employ over half of the private work force. In addition, two-thirds of new jobs in our economy are created by small businesses.

Think about this.... three-quarters of the Fortune 100 companies last year were not even on the list 25 years ago. That is a story of business incarnation and regeneration which has defined the last half century of our economic history.

Saturday I was at the White House correspondents' dinner, where I chatted with John McLaughlin. I was reminded of when I was on his half-hour show a few months ago when he commented that I was, in my role, charged with being the biggest advocate for small business in the Federal Government. I told him that I believe that our President already holds that title. He recognizes not only the tremendous value that small business plays in our economy and in our society, he also recognizes that the road to business ownership can be bumpy.

Also in the President's Small Business Week proclamation, he affirmed his ongoing commitment to small business

- By continuing the pro-growth economic policies that encourage enterprise and make America the best place in the world to do business.
- By working to keep taxes low to help small businesses continue to expand.
- And by taking steps to make health care more affordable and available for small business owners and employees by encouraging Health Savings Accounts, supporting Association Health Plans legislation, and proposing a standard tax deduction for health

insurance.

Importance of 504 Loan Program

The 504 Loan Program has been an important contributor to that growth and has made dreams possible for many American small business owners across the country.

- Projects financed through a Certified Development Company (CDC) result in real, permanent, good paying jobs being created. And the vast majority of that support comes from the NADCO family.
- Thanks to that support, the 504 program's loan volume has grown from under \$400 million in 1991 -- to almost \$6 billion in Fiscal Year 06—and that's just the SBA portion of the deals. If you add in the borrower's down payment and the first mortgage, the \$6 billion in Fiscal Year 2006 production translates into over \$14 billion in capital provided to small businesses.
- At the same time that bankers and other 504 lenders enjoyed record volume last year, rates charged to borrowers were at all time lows. You should also be proud of the fact that the 504 has the lowest default and loss rate of any of SBA's financing programs. I can't tell you how thrilled I was sending a budget up to Congress that recommended eliminating the upfront fee to 504 borrowers in 2008 - - because of the portfolio quality.

- This program not only continues to grow, but continues to improve – such as the changes made three years ago
- By increasing the area of operations for each CDC from a few counties to statewide, we increased the number of outlets available to provide loans under the 504 program. This also increased the competition among CDCs which opened up a lot of additional opportunities. By increasing competition among CDCs, the small business community is provided with better service from the CDCs. And we did so in a way that protects the integrity of the local mission of the program.

The American Dream is said to be the owning of one's own home—the dream of owning one's own building for a small business owner is an extension of that American Dream—504 loans help business owners build real estate equity as well as business equity.

SBA Changes/504 Program

Since arriving at SBA last summer, I have spent a lot of time listening to our employees, our legislators, trade associations, our partners, and most importantly, directly to our customers. In fact, when we looked back at the last 9 months, we counted over 160 formal events which I used as listening posts, in addition to countless informal opportunities. I really

don't know any other way to lead a large complex organization with the long list of opportunities and challenges that the SBA faces.

And I have come to the simple conclusion that some of the most important progress we can make is in applying good solid business principles to the work we do – much as you deal with every day in your business.

Some of you may have heard me at other events talk about our "four pillars" – four basic questions I ask myself and our employees every day as we look to how we can best serve the taxpayers.

First, are we driving the right outcomes? What results are we driving for and are those the results we should be most focused on? For example, are we focused on only increasing the number of loans we make, or are we focused on driving capital to the businesses or areas of our country where we can have the greatest impact?

Second, are we customer focused in what we are doing? We need to be easy for people to do business with us. We may have the greatest programs in the world, but if they are too difficult to work with, it will smother our effectiveness....and diminish our impact.

Third, are we enabling our employees to extend the hand of service to our customers? If we are not providing tools, training and a positive work environment that encourages excellence, we will not be effective.

Finally, are we running a tight ship? We need to be accountable, efficient and transparent in all that we do.

To summarize, we have four basic concepts:

- Outcomes Driven
- Customer Focused
- Employee Enabled, and
- Accountable, Efficient and Transparent

I know that the SBA can be a better enabler of small business by being a better partner to our lenders. A big part of being a better partner is being easy to do business with. We need to reduce the "hassle factor" in doing business with the government. To make what we do more transparent, and make working with us easier and faster.

In that spirit, we have taken steps to centralize the processing of loan applications—reducing processing time down to five days. The same loan used to take up to six weeks to process.

One of those steps was the creation of the Abridged Submission Method (ASM). The ASM reduces the paperwork that must be sent to the SBA with an application for those CDCs that routinely do a good job of putting the application package together.

More recently, we recently implemented regulations that permit CDCs to liquidate. While not mandatory, we believe that CDCs are in the best position locally to assist with liquidation.

We recognize that most CDCs do not have a big enough liquidation portfolio to justify an in-house liquidation staff. We recognize that there will be a learning curve with the implementation of the regulations over the next year or so, and that we will need to be part of getting it right. But you all are closest to the action, you know your customers, and it is a better way to do business.

We will work with you to establish standards for a SBA approved liquidation. We also anticipate teaming up with the FDIC to use their asset sale mechanism as a final means of liquidating 504 loans. FDIC developed this mechanism over the past several years and will be able to offer cost efficient asset sale services to SBA.

Future of SBA/504 Program

What can we expect to see more of in the coming year?

You have heard our team talk about simplifying the documentation package—that is coming soon.

You heard our new General Counsel, Frank Borchert, talk about revising the SOP. We need to update our guidance and make it simpler to use. There is a reason I hired a GC out of a major financial institution—we needed someone who could look at these issues from a perspective of deep experience, and do something about them.

We can expect more use of electronic communication—we are expanding the use of the e-tran processing module which was developed for the 7(a) program. SBA Express and PLP lenders have used this system to approve loans and obtain an SBA loan number for the past few years. This system is up 24/7 and, in fact, some lenders have approved loans late at night and on the weekends. We have recently expanded the use of the e-tran system to certain servicing actions for these 7(a) lenders as well.

Our ultimate goal is to permit CDCs to use an e-tran type electronic access to SBA's computer to perform many servicing actions, especially those where the SBA staff does not add value, but simply acts as a conduit to SBA's computer.

Those functions are currently an inefficient use of our resources and a waste of your time and borrowers' time.

These actions are part of a broader, focused set of initiatives to make SBA easier for our partners to do business with and as such, make it easier for our partners to serve small businesses. In addition, by automating and streamlining many of our activities, we will free up resources away from processing to higher value activities, like customer support and outreach.

Most of these initiatives fall under what I referred to as our second pillar - - being customer focused. I would like to talk to you for a moment about our first pillar - - being outcomes driven.

Looking at our core mission, I believe the SBA can make a much greater impact on our country by being more effective in helping capital to reach areas of our country with higher unemployment and poverty rates. We call them Underserved Markets, and they are generally located in our inner city and rural areas. I, like the President, am a believer in expanding the ownership society and the generation-shaping impact that economic growth can have in our nation's most troubled areas.

Driving successful and sustainable business formation into underserved markets can absolutely CHANGE THE GAME for millions of Americans. Small businesses take risks that others won't take. They are committed to

their communities. And they put everything they have into making that dream of a small business a success. And as those businesses form, they bring new jobs, economic activity, and structural investment to places that need it the most. We want to play a greater role in harnessing the power of entrepreneurial capitalism in transforming places in our country that need it the most and we want to expand our partnership with you to help make that happen.

Thank you very much for your partnership and for your time.

It has been a pleasure talking with you today.